UNITED
NATIONS

E

Economic and Social Council

Distr.
LIMITED

E/C.10/AC.3/1990/L.1
7 March 1990

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of
Experts on International Standards
of Accounting and Reporting
Eighth session
13-23 March 1990
Item 2 of the provisional agenda*

ADOPTION OF THE AGENDA AND ORGANIZATION OF WORK

Status of documentation for the session

Note by the Secretariat

This note provides information on the status of the pre-session documents for the eighth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, as at 7 March 1990, and is submitted to the Working Group for its information, pursuant to Economic and Social Council resolution 1979/69.

In view of the schedule of the eighth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (13-23 March 1990), the documentation for the session should have been submitted to the Division of Economic and Social Council Affairs and Secretariat Services by 22 December 1989, in order to allow adequate time for policy and other clearances, editing, translation and reproduction, and circulated by 30 January 1990. The documents not circulated by that date are listed in the annex below.

---

* E/C.10/AC.3/1990/1.

best copy available

Annex

STATUS OF DOCUMENTATION AS AT 7 MARCH 1990

Agenda item	Document and symbol	Date of submission to the Division of Economic and Social Council Affairs and Secretariat Services	Date of submission to the Department of Conference Services	Actual or projected date of issue*
3	Programme of work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting			
	Report of the Secretary-General on the review of important current developments at the global level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1990/2)	22 December	5 January	6 February
	Report of the Secretary-General on the review of important current developments at the national level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1990/3)	17 January	26 January	3 March
	Report of the Secretary-General on the international survey of financial statements published by transnational corporations and other enterprises (E/C.10/AC.3/1990/4)	22 December	10 January	23 February
	Report of the Secretary-General on information disclosure relating to environmental measures (E/C.10/AC.3/1990/5)	8 January	16 January	1 March
	Report of the Secretary-General on appropriate measures to give effect to the work of the Group (E/C.10/AC.3/1990/6)	12 January	16 January	21 February
	Report of the Secretary-General on accounting for pension commitments (E/C.10/AC.3/1990/7)	22 December	9 January	1 March

Agenda item	Document and symbol	Date of submission to the Division of Economic and Social Council Affairs and Secretariat Services	Date of submission to the Department of Conference Services	Actual or projected date of issue*
	Report of the Secretary-General on accounting for and by joint ventures (E/C.10/AC.3/1990/8)	22 December	4 January	6 February
	Report of the Secretary-General on accounting for intangible assets (E/C.10/AC.3/1990/9)	22 December	10 January	27 February
	Report of the Secretary-General on further steps to be taken in relation to the development of the comprehensive information system (E/C.10/AC.3/1990/10)	12 January	17 January	23 February
	Report of the Secretary-General on ways and means of improving education, research and practical training in the field of accounting and reporting in member States: results of the survey on Africa (E/C.10/AC.3/1990/11)	21 February	28 February	14 March

* The date of issue can be indicated only for those documents that have reached the Department of Conference Services.

UNITED
NATIONS

E

Economic and Social Council

Distr.
LIMITED

E/C.10/AC.3/1990/L.2
19 March 1990

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of Experts
on International Standards of Accounting
and Reporting
Eighth session
13-23 March 1990
Agenda item 5

ADOPTION OF THE REPORT OF THE GROUP ON ITS EIGHTH SESSION

Draft report

Rapporteur: Mr. John H. N. KOSIEYO (Kenya)

Chapter ___

ORGANIZATION OF THE SESSION

A. Opening and duration of the session

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting held its eighth session at United Nations Headquarters from 13 to 23 March 1990, during which it held ___ meetings (1st to __th meetings), and a number of informal meetings, as well as a round table with the New York Office of Business Development.

2. The session was opened by the Vice-Chairman of the seventh session, Mr. John H. N. Kosieyo (Kenya).

3. At the 1st meeting, on 13 March, the Executive Director of the United Nations Centre on Transnational Corporations spoke about the challenges of the 1990s and how the Group could meet them under its existing mandate. He said it was necessary for international bodies to re-examine their roles in the light of new challenges if they were to continue to render a useful service. The Economic and Social Council had intended that the Group serve as an international body for the consideration of accounting and reporting issues.

4. To fulfil that goal, a number of specific tasks were in order. They included: (a) a periodic assessment of the needs of all users; (b) a continuous review of international standards to ensure that users' needs were met; where gaps were found, the Group should formulate recommendations; (c) monitoring of information disclosure by transnational corporations and other enterprises in order to evaluate the extent to which international standards were being applied and the information needs of users met.

5. The Group's second objective was to make a positive contribution to national and regional accounting developments. This could be done through information, research, training and education. The United Nations was ideally suited to giving technical assistance through its UNDP network and other facilities. In connection with its third objective, the Group had a special obligation to ensure that the needs of developing countries were met by facilitating technical assistance, training and education. The Group should make sure that it recommended a balanced technical assistance programme so that the needs of developing countries were not neglected relative to the needs of other countries.

6. Lastly, the Group must re-examine its relationship with the Commission on Transnational Corporations and prepare a report that described the substance of its activities and recommendations in such a way that it could be understood by the non-accountants attending the Commission's session.

7. In response to the Executive Director's statement, some members of the Group thought it would be worth while to re-examine and re-articulate the Group's objectives under its existing mandate since the world had changed and needs had changed also. Others thought that the Group's mandate was quite complete but that it could be recast in a more positive way.

B. Membership and attendance 1/

8. In accordance with Economic and Social Council resolution 1982/67, the Group is composed of 34 members, elected on the principle of equitable geographical distribution. Three members from African States, two members from Asian States and two members from Latin American and Caribbean States remain to be elected.

9. The following States members of the Group were represented at the eighth session: Brazil, Canada, China, Cyprus, Czechoslovakia, France, Germany, Federal Republic of, Hungary, India, Italy, Japan, Jordan, Kenya, Netherlands, Nigeria, Norway, Peru, Spain, Swaziland, Switzerland, Union of Soviet Socialist Republics and United Kingdom of Great Britain and Northern Ireland.

10. The following States Members of the United Nations were represented by observers: German Democratic Republic, Mexico, Morocco and Turkey.

11. Representatives of the International Labour Organisation and the World Bank attended.

12. The Commission of the European Communities was represented by an observer.

13. The following non-governmental organizations in consultative status with the Economic and Social Council (category I) were represented by observers: International Chamber of Commerce and International Confederation of Free Trade Unions.

C. Election of officers

14. At its 1st meeting, on 13 March, the Group elected by acclamation the following officers:

Chairman: Ms. Asta Tjölsen (Norway)

Vice-Chairmen: Mr. Talal Abu-Ghazaleh (Jordan)
Mr. Hugo da Rocha Braga (Brazil)
Mr. Radomír Kosina (Czechoslovakia)

Rapporteur: Mr. John H. N. Kosieyo (Kenya)

D. Agenda

15. At its 1st meeting, on 13 March, the Group adopted the following provisional agenda as contained in document E/C.10/AC.3/1990/1.

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. Programme of work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting.

4. Provisional agenda for the ninth session of the Group.

5. Adoption of the report of the Group on its eighth session.

The documents before the Group at its eighth session are listed in the annex to the present report.

Notes

1/ With the approval of the Group, the following organizations attended the session: International Accounting Standards Committee, International Federation of Accountants, Chartered Association of Certified Accountants of the United Kingdom and Fédération internationale des experts-comptables francophones.

UNITED
NATIONS

E

Economic and Social Council

Distr.
LIMITED

E/C.10/AC.3/1990/L.2/Add.1
19 March 1990

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of Experts
on International Standards of Accounting
and Reporting
Eighth session
13-23 March 1990
Agenda item 5

ADOPTION OF THE REPORT OF THE GROUP ON ITS EIGHTH SESSION

Draft report

Rapporteur: Mr. John H. N. KOSIEYO (Kenya)

Chapter ___

III. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

A. Review of important current developments at the global and national levels in the field of accounting and reporting by transnational corporations, on the basis of documentation received by the United Nations Centre on Transnational Corporations from individual member States, intergovernmental organizations and non-governmental organizations

1. At its 1st and 2nd meetings, on 13 March 1990, the Group reviewed important current developments in the field of accounting and reporting by transnational corporations on the basis of two reports of the Secretary-General (E/C.10/AC.3/1990/2 and E/C.10/AC.3/1990/3). The first report (E/C.10/AC.3/1990/2) presented current developments from a global perspective. Four main developments were singled out: the continued instability in financial markets, European economic integration, glasnost and accounting for environmental protection measures.

/...

2. The observer for the Commission of the European Communities reported on the outcome of a recent conference on the future of harmonization of accounting standards. It was decided that it would be premature to reduce the options contained in the fourth and seventh Community directives. A special advisory board, which would function parallel to the contact committee, would be set up and would consider accounting issues related to Community directives. In response to a question on the future for standard-setting activity in Europe, he said that Europe, as a major exporter and importer, remained interested in international harmonization. However, he reminded the Group that the experiences in harmonizing accounting standards within the Community could be useful for international harmonization because it should be remembered that the Community was composed of member States that had radically different approaches to accounting.

3. It was noted in the report of the Secretary-General (E/C.10/AC.3/1990/2) that there had been a shift from individual investors to institutional investors in some financial markets. However, a number of experts said that that trend was not evident in the European financial markets. One speaker reminded the Group that there must be protection of the "common" investors and that their interests must be taken into account so that they received enough information to be able to make informed investment decisions. One expert said that currently in his country such investors could opt to receive summary financial statements instead of full financial statements, and it was thought that the summary statements would better meet their needs.

4. Regarding glasnost, the expert from the Union of Soviet Socialist Republics informed the Group that the Supreme Soviet was discussing economic restructuring and that the new tax legislation under consideration would resolve many problems of joint ventures. The Methodological Council (an independent body) was also working on accounting problems arising in joint ventures and knew how to resolve them, but the process would take time. He said that the USSR had a very well-developed body of accounting standards which covered all sectors of the economy and that these would be adapted in line with international standards. The expert from China stated that the accounting legislation pertaining to joint ventures had taken into account Western accounting systems. The most pressing problem at present for the joint ventures was which foreign exchange rate to apply to foreign investments.

5. A number of suggestions were made to improve the structure of the report. For example, besides reviewing economic developments that had accounting implications, which was an innovation appreciated by the Group, it would be desirable to add a section identifying accounting trends so that the Group could get a better sense of global developments.

6. At its 2nd meeting, the Group began its consideration of the report of the Secretary-General on current developments at the national level (E/C.10/AC.3/1990/3). Experts from India, Japan and Norway gave new information; other experts corrected information on their countries contained in the report. In order to improve the response rate, it was recommended that the note verbale should continue to be sent out through formal government channels and through informal channels as well and that experts in the various regions should take responsibility for ensuring that the replies were sent to the Centre on time. It was also

suggested that countries submit their replies in an official language and, if possible, in English also.

7. The Group reviewed the survey of information disclosure by 194 transnational corporations and other enterprises contained in the report of the Secretary-General (E/C.10/AC.3/1990/4). Many experts in the Group were highly critical of the methodology which called for the answer "yes" or "no" and did not provide for situations where the accounting item was not applicable. They felt that that weakness introduced a downward bias in some scores and thus invalidated the percentage scores obtained. It might have been better if the analysis had focused on why certain disclosures were omitted. For example, an important factor influencing the scores might be the still existing deviations between international and national standards. Some experts said that the survey was not based on a statistically significant sample. Therefore the findings, especially on a country-by-country basis, should not appear as percentage scores. If the Group should decide to undertake a new survey in the future, the methodology would have to be improved. A number of experts thought that given the subjectivity in judging disclosure on a particular accounting item, such judgment was better made by a panel of experts. Other members of the Group thought that while there might be a bias in the percentages, the trends were clear in that enterprises were not providing all the information called for by the "conclusions". Experts from developing countries said that such monitoring exercises were particularly valuable for them because so little information was available on the subject of compliance. Some members discussed the pros and cons of achieving better compliance through an international convention but came to no agreement.

UNITED
NATIONS

E

Economic and Social Council

Distr.
LIMITED

E/C.10/AC.3/1990/L.2/Add.2
20 March 1990

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of Experts
on International Standards of Accounting
and Reporting
Eighth session
13-23 March 1990
Agenda item 5

ADOPTION OF THE REPORT OF THE GROUP ON ITS EIGHTH SESSION

Draft report

Rapporteur: Mr. John H. N. KOSIEYO (Kenya)

Chapter ____

III. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

B. Discussion of issues of accounting and reporting identified during the eighth session

1. Accounting by and for joint ventures

8. At its 3rd meeting on 14 March 1990, the Group took up the topic of accounting for and by joint ventures, as contained in the report of the Secretary-General (E/C.10/AC.3/1990/8). The Group first considered accounting by joint ventures. The Group discussed at length whether, in the case of "international" joint ventures, it is necessary to follow internationally acceptable accounting principles. Many members of the Group thought that the first objective was to provide usable information to the venturers and host Government, in which case, joint ventures would have to conform to the accounting standards of the host country. Others were of the opinion that, while it was necessary to comply with the accounting standards of the host country, it was also highly desirable to comply with international standards. It was pointed out that unless a benchmark

system were used, it would be difficult to come up with a common set of financial statements useful to all partners. That was particularly true where the venturers come from countries with very different economic systems and different accounting systems.

9. On that point, the expert from the USSR stated that if international co-operation were desired, then a common language must be spoken and therefore, one should be guided by international standards. Joint ventures had raised many questions in the USSR because of the conceptual differences between the venturers, but they were being worked out. The expert from China said that, as a basic principle, joint ventures had to follow national laws but that the Chinese authorities had also taken into consideration international standards in order to ease the way for foreign investment. In his country, a special set of regulations which were not applicable to domestic enterprises had been devised for joint ventures.

10. The Group then turned its attention to accounting for joint ventures. The observer from the Commission of the European Communities noted that the seventh directive allowed for either proportionate consolidation or the equity method in consolidated accounts. He added that proportionate consolidation was sometimes preferred on the basis of "control" but felt that control was difficult to define. Consequently, the seventh directive used other terminology - "joint management" - as a way of overcoming the problem. Others agreed that a choice should be allowed between the two methods, depending on the circumstances.

11. At that point, one expert raised strong objection to the definition of a joint venture as set out in the report: "A joint venture implies that control is shared, with no one of the venturers in a position to exercise unilateral control of the venture". He observed that in joint ventures in developing countries, it was often the case that one party had effective control. Others thought that, given the tightness of the present definition, the report pertained to a limited number of joint ventures. Another expert said he thought the definition was too theoretical and that a more practical one was needed. A number of experts felt that the report should be expanded to discuss, more specifically the problems of joint ventures in developing countries and centrally planned economies. The Group decided to form a small working party which would consider the new definition and the possible conclusions that could be drawn up regarding information disclosure and accounting methods and would report back to the Group later during the session.

12. After reviewing the report of the working party, the Group recommended the following:

(a) Elaborate the definition section in such a way that joint ventures managed exclusively or predominantly by one venturer are fully covered;

(b) Provide a section on accounting methods for joint ventures, including the impact of management contracts, franchising agreements and licensing arrangements;

(c) Expand the section of the report dealing with joint ventures in Eastern Europe and centrally planned economies in such a way that the particular conditions under which such joint ventures operate there are adequately dealt with.

13. Therefore, the Group recommended that the report be submitted at the next session, taking into consideration the recommendations made above as well as the observations and remarks made by the delegates and observers at the eighth session.

2. Accounting for pension commitments

14. During its 4th meeting on 14 March 1990, the Group took up the question of accounting for pension commitments as contained in E/C.10/AC.3/1990/7. The Group agreed that the report gave a clear exposition of the issues at stake as well as of the terms and concepts used in pension accounting. The Group discussed the difficulty a transnational corporation would have in disclosing pension data since it was likely to have a different plan in every country where it operated. The Group agreed that it should be possible to disclose useful information on the "enterprise as a whole" but that the information would be more restricted in consolidated financial statements than in individual financial statements.

15. One expert noted that the real need for information disclosure was in the case of internally funded pension plans. Therefore, a distinction should be made between the information required in the case of internal funding and that required in the case of external funding. Another expert commented that the information needs of employees could be better served on a national basis. Others thought that the information needed by employees might be given in a special-purpose report.

16. So far as accounting methods were concerned, some experts expressed the view that pension costs should be treated as a single item in the income statement. It would not be appropriate to seek to require treatment of any interest component of pension costs as a financial cost in an income statement. Also, some experts considered that it would be inappropriate to recognize actuarial gains and losses and experience adjustments as extraordinary results in the years which they occurred. Instead, it would be appropriate to amortize the amounts over the average remaining periods of service of the employees.

17. At the end of the discussion, the Group arrived at the following conclusions regarding information disclosure and accounting methods for pension commitments:

(a) The disclosure of pension data by transnational corporations will, by nature, have to be limited since transnational corporations must deal with various national regulations and different company plans. For the purpose of external users like employees, the local financial statements or special purpose reports may be a more appropriate means of disclosure.

(b) The following elements should be disclosed:

(i) Type of major pension plans - namely, defined contribution plan or defined benefit plan (career average, final pay or flat benefit type);

(ii) Organizational structure of the major pension plans: an internal pension fund, an external pension fund or an insurance company;

(iii) Type of commitment an enterprise undertakes if these commitments are not unconditional;

(c) Consideration should be given to disclosure of the following information in so far as applicable:

(i) Aggregate pension cost per period;

(ii) For internal pension funds: the actuarial cost methods which are used for accounting and financing purposes and information on the review of the underlying assumptions by external experts;

(iii) For external pension funds: investments (type - e.g., shares, loans) made by the pension funds in the enterprise and amounts advanced (type - e.g., loan, amounts) by the enterprise to the pension plans.

3. Accounting for intangible assets

18. During its 5th meeting on 15 March 1990, the Group considered E/C.10/AC.3/1990/9 on accounting for intangible assets. The Group found the report well prepared in that it brought together in an analytically useful way much relevant information. One observer thought that the item-by-item approach was particularly helpful and might be recommended to others studying the issue. Many members of the Group were appreciative of the fact that the report reviewed issues and practices and did not attempt to arrive at conclusions, which would be premature, given ongoing developments. However, others were of the opinion that the Working Group could arrive at some conclusions. One expert commented that in his country, the debate over a recent exposure draft on intangible assets was quite controversial and had raised fundamental questions about financial statements. Another expert stated that the Group should not try to dictate precise accounting methods at that time. The important thing was that, whatever method was applied should be disclosed.

19. The Group recognized that that was a very dynamic field because of the growth of the service sector and that the amounts shown for intangible assets were increasing in significance. Some experts stated that under the prudence principle, self-created intangibles should not be capitalized as assets. In the same line of thinking, it was pointed out that some jurisdictions required the constitution of an undistributable reserve in the case of capitalization of certain self-generated intangibles. Many experts felt that revaluation of intangible assets was a matter of the accounting convention in use and was, therefore, not related solely to intangibles.

20. The Group agreed to return to the issue when developments warranted its reconsideration.

C. Ways and means of improving education, research and practical training in the field of accounting and reporting in member States

21. During its 6th meeting on 15 March 1990, the Group took up the question of accounting needs in Africa based on E/C.10/AC.3/1990/11. A representative of the Centre explained that the survey of 41 countries in Africa could not have been undertaken without the assistance of the World Bank and the International Labour Office. The survey had proved to be a very expensive and time-intensive activity for the organizations involved. Consequently, she hoped that since the first step had been completed and the needs had been clearly identified, the Group would be in a position to discuss how those needs could best be met. The representatives of the World Bank and the International Labour Office mentioned that, although there were a number of multilateral and bilateral programmes for accounting development in Africa, many had failed because they were short-term and because the beneficiaries did not necessarily remain in their countries or posts due to better opportunities elsewhere. Also, many countries were too small to consider a national approach to improving accountancy, and a regional approach might be more effective.

22. Experts from the region found the report and its findings accurate. They also spoke of their experiences with aid projects which had accounting components. In their opinion, those did not have any multiplier effect and therefore did not contribute to the accounting infrastructure of the country. One expert recommended that accounting training be standardized and co-ordinated on a regional basis.

23. It was noted with regret that so few experts from Africa were present for the discussion. The representative from the Centre explained that while funding was available to defray travel costs, it had arrived too late for some experts to make arrangements. An expert from Africa confirmed that the absences were due not to any lack of interest but to lack of resources.

24. One expert thought that any technical assistance should incorporate several features - namely, it be long term, it should include apprenticeship training for accounting technicians, and efforts should be concentrated.

25. After consultation with the Centre, the World Bank and the International Labour Office, the Group called upon the Commission on Transnational Corporations to request the Centre to undertake appropriate follow-up action, as contained in the following resolution:

"Whereas, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting had requested the Centre on Transnational Corporations to undertake a survey of accounting needs in Africa;

Whereas, the Centre, with the assistance of the World Bank and the International Labour Office, had complied with this request and had identified accounting needs in Africa;

Whereas, the Group has reviewed the survey and its findings during its eighth session and found the report to be an essential step towards identifying the various aspects of technical assistance in accounting education, training and research;

Therefore, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting requests the Commission on Transnational Corporations to instruct the United Nations Centre on Transnational Corporations to take the necessary follow-up action, including:

(a) Holding regional meetings in Africa with the specific purpose of discussing the findings of the survey and identifying with the representatives of Governments, academia, and the accounting profession, long-term and comprehensive strategies to strengthen accounting development;

(b) Organizing the meetings with the international aid community including the World Bank, International Labour Office and the United Nations Development Programme, and with regional and bilateral agencies and professional organizations;

(c) Formulating, based on the strategies, pilot projects for meeting accounting needs in Africa."

UNITED
NATIONS

E

Economic and Social Council

Distr.
LIMITED

E/C.10/AC.3/1990/L.2/Add.3
21 March 1990

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of Experts
on International Standards of Accounting
and Reporting
Eighth session
13-23 March 1990
Agenda item 5

ADOPTION OF THE REPORT OF THE GROUP ON ITS EIGHTH SESSION

Draft report

Addendum

Rapporteur: Mr. John H. N. KOSIEYO (Kenya)

Chapter _____

I. MATTERS CALLING FOR ACTION BY THE COMMISSION ON TRANSNATIONAL CORPORATIONS

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting recommends to the Commission on Transnational Corporations the adoption of the following draft decisions:

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eighth session and provisional agenda and documentation for the ninth session of the Group

The Commission on Transnational Corporations decides:

(a) To approve the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its eighth session and to commend the Group for its work;

(b) To approve the provisional agenda and documentation for the ninth session of the Group, as set out below.

PROVISIONAL AGENDA AND DOCUMENTATION FOR THE NINTH SESSION OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. Programme of work of the Intergovernmenal Working Group of Experts on International Standards of Accounting and Reporting:

(a) Review of important current developments at the global and national levels in the field of accounting and reporting by transnational corporations, on the basis of documentation received by the Centre on Transnational Corporations from:

(i) Individual member States;

(ii) Intergovernmental organizations;

(iii) Non-governmental organizations;

Documentation

Reports of the Secretary-General, including two separate reviews of important current developments in the field of accounting and reporting by transnational corporations, one at the global level and the second at the national level

(b) Discussion of issues of accounting and reporting identified during the eighth session - namely:

(i) Accounting by and for joint ventures;

(ii) Accounting for environmental protection measures;

(iii) Accounting and reporting during and after the transition from State to private enterprises;

(iv) The organization of the accounting profession and the role and the qualifications of auditors.

Documentation

Reports of the Secretary-General and relevant reports of international organizations

(c) Identification of issues of accounting and reporting for discussion on a priority basis during future sessions;

(d) Further steps to be taken in relation to the development of the comprehensive information system;

Documentation

Report of the Secretary-General

(e) Accounting and reporting issues arising out of the future code of conduct on transnational corporations;

(f) Appropriate measures to give effect to the work of the Group;

Documentation

Reports of the Secretary-General

(g) Renewal of the mandate and review of the objectives;

Documentation

Report of the Secretary-General

(h) Ways and means of improving education, research and practical training in the field of accounting and reporting in member States.

Documentation

Report of the Secretary-General containing the results of follow-up actions after the survey relating to Africa

4. Provisional agenda for the tenth session of the Group.

Documentation

Draft provisional agenda for the tenth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting: note by the Secretary-General

5. Adoption of the report of the Group on its ninth session.

Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

The Commission on Transnational Corporations decides that the following measures should be undertaken by the Centre on Transnational Corporations:

Whereas, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) requested the Centre on Transnational Corporations to undertake a survey of accounting needs in Africa;

Whereas, the Centre, with the assistance of the World Bank and the International Labour Office, has complied with this request and has identified accounting needs in Africa;

Whereas, ISAR has reviewed this survey and its findings during its eighth session and found the report to be the essential step towards identifying the various aspects of technical assistance in accounting education, training and research;

Therefore, the Commission on Transnational Corporations invites the Centre on Transnational Corporations to take the necessary follow-up action, including:

(a) Holding regional meetings in Africa with the specific purpose of discussing the findings of the survey and identifying with the representatives of Governments, academia and the accounting profession, long-term and comprehensive strategies to strengthen accounting development;

(b) Organizing these meetings with the international aid community, including the World Bank, the International Labour Office and the United Nations Development Programme, as well as regional and bilateral agencies and professional organizations;

(c) Formulating, based on these strategies, pilot projects for meeting accounting needs in Africa.

UNITED
NATIONS

E

Economic and Social Council

Distr.
LIMITED

E/C.10/AC.3/1990/L.2/Add.4
21 March 1990

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of Experts
on International Standards of Accounting
and Reporting
Eighth session
13-23 March 1990
Agenda item 5

ADOPTION OF THE REPORT OF THE GROUP ON ITS EIGHTH SESSION

Draft report

Addendum

Rapporteur: Mr. John H. N. KOSIEYO (Kenya)

Chapter _____

III. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

B. Discussion of issues of accounting and reporting identified during the eighth session

4. Accounting for environmental measures

1. At its 8th and 10th meetings, on 16 and 20 March 1990, the Group took up the issue of accounting for environmental measures as contained in the report of the Secretary-General (E/C.10/AC.3/1990/5). The members of the Group found the report interesting and sufficient for discussion. They felt that the state of the environment was one of the most pressing problems facing mankind. Many thought that environmental protection was the specific task of the Government and that initiatives must be initiated at that level. Nevertheless, accountants had a modest contribution to make and they should make it. However, the issue was relevant not just for transnational corporations but for all types of enterprises,

including public utilities. Some members suggested giving the report wide circulation among interested parties in Government, enterprises and national and international accounting bodies. Given the fact that some of the information recommended for disclosure in the report might be difficult to provide, those entities might have suggestions on the practicality of presentation. In addition, since developments were under way in the environmental field, the Group should have more time to study the question of disclosure.

2. Many experts thought there were limits to disclosure in general purpose reports. They wondered if some of the information suggested in paragraph 112 of the report on disclosure relating to environmental measures would be helpful to all users. There was general concern about the type of information that could be given. Some experts said that segmentation of expenses and capital expenditures in the financial statements would be feasible. Other experts expressed their concern about disclosure requirements in the financial statements (paras. 112-115). Part of those disclosures would be automatically included in the notes to financial statements that complied with accounting standards generally accepted in many countries. Other disclosures required in paragraphs 112-115 of the report were an extension of existing practice. The report did not make a clear distinction between the two.

3. During the reveiw of enterprises, it was found that some were providing information which allowed users to segment environmental costs, while others said it was difficult for them to estimate what part of their investments benefited the environment. One member expressed concern about the need for improvement in the recognition and provision for liabilities, and contingent liabilities, which were particularly difficult in that area.

4. While some experts thought it was premature to call for specific disclosures, other experts expressed the desirability of arriving at some recommendations for information disclosure, however modest. Since their countries faced grave environemntal problems, their Governments would be interested in the Group's guidance in accounting and reporting. It was also suggested that the Group commend enterprises which did provide useful disclosures. Furthermore, the Group should request other bodies to look into that matter to see how standards could be formulated and specify what items they should consider. Another expert said that it would be difficult for all members to agree on all items recommended for disclosure in paragraphs 111-115 of the report. One member of the Group observed that, regarding subparagraph 111 (e), in many countries enterprises already had to report to the Government on compliance with environmental laws so that the item would merely make the information available to all users. He added that subparagraph 111 (f) was consistent with the general requirement that when a result from an event was material, it must be disclosed in the directors' report.

5. The Group agreed that environmental protection measures were an important matter and that enterprises should at least include a description of their environmental policy, programmes and achievements in the report of the board of directors. Some of the question of the information which might be given in the financial statements is concerned, the Group would return to the issue at its next session. In the meantime, the Group recommended that Governments and other

standard-setting bodies, industry organizations and other interested groups should give consideration to the desirability and practicality of providing the type of information set out in section VII of the report of the Secretary-General (E/C.10/AC.3/1990/5), which is contained in annex I of this report.

6. The Group requested the Centre to prepare a report for the ninth session which would discuss, inter alia: (a) new developments, particularly the work of other organizations; (b) comments on section VII of the report received from interested parties; (c) positive incentives for environmental protection; (d) the type of information enterprises were already providing to government authorities; (e) differences in practices among enterprises including treatment of expenses and liabilities in the financial statements arising from environmental protection measures; (f) recommendations for disclosure in financial statements.

C. Identification of issues of accounting and reporting for discussion on a priority basis during future sessions

7. At its 10th meeting, on 20 March 1990, the Group identified the follwing issues for discussion during the ninth session:

(a) Accounting by and for joint ventures (see para. for the outline on this topic);

(b) Accounting for environmental protection measures (see para. for aspects to be included);

(c) Accounting and reporting during and after the transition from State to private enterprises;

(d) Organization of the accounting profession and the role and qualifications of auditors.

8. The Group agreed that any further work on the topic of intangibles, particularly the monitoring of new developments, should be included in the global developments report.

D. Further steps to be taken in relation to the development of the comprehensive information system

9. At its 9th meeting, on 20 March 1990, the Group considered developments in the comprehensive information system, based on the report of the Secretary-General (E/C.10/AC.3/1990/10). One expert commented that the report concentrated on foreign direct investment statistics and wanted to know what improvements were being made in the corporate data and legal information systems. While many of the experts appreciated the difficulty in finding a suitable unit of account to aggregate foreign direct investment data, they felt that since they were not experts in that field, it would be inappropriate for them to recommend to the Commission on Transnational Corporations that an expert group be formed to address that problem.

E. Accounting and reporting issues arising out of the future code of conduct on transnational corporations

10. The Group deferred consideration of accounting and reporting issues arising out of the future code of conduct pending the outcome of negotiations on the draft code.

F. Appropriate measures to give effect to the work of the Group

11. At its 7th and 9th meetings, on 16 and 20 March 1990, the Group discussed appropriate measures to give effect to its work. They had before them a proposal to create a working group whose task would be to redefine the objectives of the Group. While all members favoured such a redefinition, they preferred that it be done by the Centre on Transnational Corporations rather than a working group. They indicated what the Centre should take into consideration when preparing its proposal. Aspects to be addressd included:

(a) Stating the objectives in positive terms in relation to the global economy of today;

(b) Making a positive contribution to national, regional and international standard-setting;

(c) Continuing to take into account the interests of all countries, including developing countries and countries from Eastern Europe and centrally planned economies and to assist them in the adoption and implementation of internationally recognized standards through (i) education; (ii) programmes for professional qualifications of accountants; (iii) organization of the accounting profession; (iv) development of standard-setting mechanisms; (v) development of appropriate enabling legislation.

12. The Group discussed several of its objectives, such as the review of international standards. Many felt that the function was entirely appropriate because of the intergovernmental and global nature of the Group. They wondered if any endorsement should be given to the standards it reviewed. It was noted that endorsement by the Group would not make those standards binding but would merely signify its approval.

13. It was stated that the continuation of the Group depended not only on the redefinition of its objectives but also on stronger participation from developing countries. There were still a number of vacancies among developing countries which should be filled. Also, attendance of the existing members needed to be improved. While all agreed that financial constraints affected the ability of the experts to participate, there were also problems of co-ordination. The representative of the Group of 77 called the attention of the Group to the report of the Secretary-General on accounting needs in Africa (E/C.10/AC.3/1990/11). It demonstrated that there was no lack of interest in accounting development in that region but that the collapse of the economies of the region had made it financially impossible to train accountants and to participate in international accounting

meetings. The representative was confident that the planned regional meeting in Kenya would solve co-ordination and communication problems. Another expert suggested that the Centre consider the feasibility of asking one developed country to sponsor one expert from a developing country on a continuous basis. Experts from developing countries, Eastern Europe and centrally planned economies spoke of the usefulness of the Group. It was the only forum where they could keep in touch with developments and learn from the experience of others. The gathering of experts from different countries with different backgrounds provided for a most useful exchange. In some cases, those experts were able to immediately make use of the Group's conclusions in their home countries. It was suggested that the Centre prepare a report on the reasons for poor participation in the past and the prospects for the next session. The report should be sent to Governments and experts by mid-November.

UNITED
NATIONS

E

Economic and Social Council

Distr.
LIMITED

E/C.10/AC.3/1990/L.3
22 March 1990

ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of Experts
on International Standards of Accounting
and Reporting
Eighth session, 13-23 March 1990
Agenda item 3

PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

Recommendations for better accounting and reporting for environmental measures

A. Report of the Board of Directors/management discussion and analysis

1. The report of the Board of Directors/management discussion and analysis should set out the following:

(a) The type of environmental issues that are pertinent to the enterprise and its industry;

(b) The formal policy and programmes that have been adopted by the enterprise with respect to environmental protection measures (if no formal policy and programmes exist, it should be stated; if environmental audits are regularly carried out as a part of this policy, this should also be stated, as well as the main results, if material);

(c) The improvements in key areas that have been made since the introduction of the policy, or over the past 5-10 years, whichever is shorter;

(d) The environmental emissions targets that the enterprise has set for itself, and how the enterprise is performing relative to those targets;

(e) The extent to which environmental protection measures have been undertaken due to government legislation and, if so, the extent to which government requirements (for example, a time-table for the reduction of emissions) are being achieved;

(f) The financial or operational effect of environmental protection measures on the capital expenditures, earnings and competitive position of the enterprise for the current period and any specific impact on future periods.

B. Notes to the financial statements

2. The accounting policy notes should describe the policies adopted in accounting for environmental protection measures in, for example:

(a) Charging such amounts to operations;

(b) Capitalizing such amounts, and the amortization policy;

(c) Recording liabilities;

(d) Setting up provisions and catastrophe reserves;

(e) Disclosing contingent liabilities;

(f) Insuring against the consequences of harmful effects;

(g) The treatment of grants (government and other);

(h) Not charging or capitalizing such amounts due to tax rules.

3. When material, the following amounts should be disclosed, together with a description of the environmental measures to which they relate:

(a) The amount charged to operations in the current period (where it is not possible to segregate the amount that relates to environmental protection measures, this fact should be stated);

(b) The amount capitalized during the current period, the accumulated amount capitalized to date and the period for amortizing, or writing off, such amounts (where it is not possible to segregate the amount that relates to environmental measures, this fact should be stated);

(c) Liabilities, provisions and reserves that have been set for the current period, and amounts accumulated to date;

(d) Contingent liabilities, with an estimate of the amount involved, unless the likelihood of the confirming event is remote or the amount of the possible loss cannot be reasonably calculated (in which case the description of the contingent liability should continue to be furnished and the reason should be given why an estimate of the amount of the loss cannot be made). Management's classification of contingencies as being probable or possible should be specifically disclosed.

4. The tax effect and the timing of the realization of the tax effect of the recording of environmental measures should be disclosed.

5. The amounts of any government or other grants, tax treatment of environmental expenditures, etc., received in the period for environmental protection measures, together with a description of the item to which they relate, should be disclosed.